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**FISCAL IMPACT STATEMENT**

**LS 7061**

**BILL NUMBER:** HB 1001

**NOTE PREPARED:** Feb 17, 2005

**BILL AMENDED:** Feb 17, 2005

**SUBJECT:** Budget Bill.

**FIRST AUTHOR:** Rep. Espich

**FIRST SPONSOR:**

**BILL STATUS:** 2<sup>nd</sup> Reading - 1<sup>st</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
X FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) *Biennial Budget*: This bill appropriates money to carry on state government and make various distributions to schools and other political subdivisions.

*Property Tax Replacement and Homestead Credit Provisions*: The bill provides for the adjustment of property tax replacement credit (PTRC) percentages to limit total state distributions for property tax relief.

*Procedures for Bodies Corporate and Politic*: The bill applies certain administrative and budget procedures to bodies corporate and politic.

*Budget Agency and Surplus Property*: The bill also allows the Budget Agency to prescribe policies for the disposal of surplus property by the state.

*Power to Raise Fees Pertaining to the DNR*: The bill also transfers powers to set certain fees from the Department of Natural Resources to the Natural Resources Commission.

*Campus Name Changes*: The bill changes the names of certain campuses of the Indiana University School of Medicine.

*Higher Education Provisions*: The bill requires the Commission for Higher Education to establish standards for the transfer of courses between state educational institutions. The bill also requires state educational institutions to offer to resident undergraduate students a guaranteed price option under which tuition cannot be increased, with certain exceptions, during four academic years.

*Tuition Support Provisions:* This bill also establishes a school funding formula and makes certain other changes concerning education finance.

*Teachers' Retirement Fund (TRF) Provisions:* The bill also makes changes to provisions regarding TRF plan transfer requirements and local school employer contribution rates for members of the Teachers' Retirement Fund.

The bill makes other changes and repeals obsolete provisions and a provision limiting charter school funding.

**Effective Date:** (Amended) July 1, 2004 (Retroactive); January 1, 2005 (Retroactive); Upon passage; July 1, 2005; January 1, 2006.

**Explanation of State Expenditures:** (Revised) *Biennial Budget* - This bill establishes the state budget appropriations for FY 2006 and FY 2007. Total General Fund and Property Tax Replacement Fund appropriations are \$11,834.2 M for FY 2006 (a 4.8% increase over FY 2005) and \$11,973.6 M for FY 2007 (a 1.2% increase over FY 2006).

Of this amount, total operating appropriations are \$11,630.9 M for FY 2006 (a 4.8% increase over FY 2005) and \$11,770.3 M for FY 2007 (a 1.2% increase over FY 2006). Appropriations for capital projects represent \$406.6 M for the biennium.

Appropriations from the General Fund and the Property Tax Replacement Fund are provided by functional category in the following table.

<b>General Fund and Property Tax Replacement Fund: FY 2006-FY 2007.</b>			
<b>Functional Category</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>% Change</b>
<b>General Government</b>	358,892,047	357,685,853	-0.3%
<b>Corrections</b>	623,820,843	624,102,731	0.0%
<b>Other Public Safety</b>	93,890,208	93,688,230	-0.2%
<b>Conservation and Environment</b>	84,792,633	84,833,399	0.0%
<b>Economic Development</b>	44,791,958	44,799,298	0.0%
<b>Transportation</b>	465,000	465,000	0.0%
<b>Mental Health</b>	250,471,632	250,539,066	0.0%
<b>Public Health</b>	74,600,245	74,638,707	0.1%
<b>Medicaid</b>	1,428,653,790	1,469,757,653	2.9%
<b>Family and Children</b>	199,693,553	199,699,911	0.0%
<b>Social Services and Veterans</b>	313,343,461	337,496,440	7.7%
<b>Higher Education</b>	1,564,717,639	1,595,882,699	2.0%
<b>Education Administration</b>	56,389,288	56,389,564	0.0%
<b>Tuition Support - General Fund</b>	2,089,400,242	2,067,229,408	-1.1%
<b>Tuition Support - PTR Funds</b>	1,641,524,758	1,619,353,925	-1.4%
<b>Social Security - Teachers</b>	2,403,792	2,403,792	0.0%
<b>Teachers Retirement</b>	549,927,438	581,581,551	5.8%
<b>Other Local Schools</b>	186,263,917	186,264,273	0.0%
<b>Other Education</b>	11,855,306	11,858,339	0.0%
<b>PTR and Homestead Credits</b>	2,055,009,197	2,111,609,197	2.8%
<b>Distributions - General Fund</b>	0	0	
<b>Subtotal - Operating</b>	11,630,906,947	11,770,279,036	1.2%
<b>Higher Education Construction</b>	12,798,218	12,798,218	0.0%
<b>Other Construction</b>	190,492,945	190,492,926	0.0%
<b>Subtotal - Capital Projects</b>	203,291,163	203,291,144	0.0%
<b>Grand Total</b>	11,834,198,110	11,973,570,180	1.2%
* Appropriations “for the biennium” are apportioned 50% for each fiscal year. ** The appropriations in this table represent only those appropriations provided in HB1001-2005.			

Appropriations from dedicated and federal funds for the biennium are presented in the following table.

<b>Dedicated and Federal Appropriations: FY 2006 -FY 2007.</b>			
<b>Functional Category</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>% Change</b>
<b>BIF &amp; Lottery /Gaming Surplus</b>	4,816,014	4,816,014	0.0%
<b>Other Dedicated - Operating</b>	1,172,377,636	1,165,973,663	(0.5)%
<b>Other Dedicated - Construction</b>	24,343,057	24,343,055	0.0%
<b>Tobacco Settlement</b>	187,827,706	187,845,256	0.0%
<b>Federal Funds</b>	599,522,452	639,522,452	6.7%
<b>Total Dedicated</b>	1,988,886,865	2,022,500,440	1.7%

Higher Education Provisions -

*Higher Education Commission Courses:* The Higher Education Commission is required to establish a statewide core transfer library of at least 70 courses that have transfer equivalents on all campuses. The Commission also is to establish at least 12 degree programs for which articulation agreements apply to any Ivy Tech State College campus and to Vincennes University. The library and degree programs can likely be developed within the Commission's current budget.

*Higher Education Tuition:* State colleges and universities would be required to offer Indiana residents a fixed tuition option for their 4 years of college. The initial tuition would probably be higher than the current tuition, but could not increase over the four-year period. The change would have no state impact. The impact on universities would depend on how they estimate the guarantee price option. If tuition grows faster than estimated, then they could lose revenue, and if it grows slower than estimated, then a university may experience a net gain.

Tuition Support Provisions -

*Primetime:* The bill changes the primetime calculation for CY 2005. Under current law if the complexity index is greater than 0.2, then the calculations are based on a class size of 15 to 1. Since the value of the complexity index is between 1 and 2, every school is funded at a class size of 15 to 1 (instead of 15 to 1 for schools with a high index and 18 to 1 for schools with a low index). The change reduces the primetime distribution by about \$16.8 M.

*Complexity Index:* The 2005 school formula refers to the Census data of adults over age 20 without a high school education. The Census data only has information on the number of adults over age 25 without a high school education. The change should have no fiscal impact. The complexity index for CY 2006 and CY 2007 is similar to the index for CY 2005 with two exceptions. The dollar amounts of the weights were increased by 5%, and the second tier calculations were modified.

*General School Formula:* The bill authorizes the transfer of \$20 M from account 6000/168900 to the state General Fund to fund the tuition support deficiency for FY 2005. The school formula is a reward-for-effort formula that moves schools to a foundation amount, \$4,370 multiplied by a school's complexity index, over 6 years. The dollar amount is then multiplied by a school's adjusted ADM to determine a school's regular

program funding. The adjusted ADM is the greater of a 3- or 5-year average of the school's ADM. The formula also has a maximum decrease in the funding of regular programs of 3% per ADM from year to year. The funding for the categorical programs, except the Honors Grant, were straight-lined at the CY 2005 level. The Honors Grant was decreased from \$930 per student to \$900. The bill increases the CY 2005 cap from \$3,721,000,000 to \$3,757,300,000.

The following chart shows the estimated school formula distribution for schools.

	CY 2005	CY 2006	% Inc	CY 2007	% Inc
State Funding					
School Formula	\$3,757,298,833	\$3,693,968,842	(1.70)%	\$3,676,116,350	(0.50)%
PTRC	\$1,265,931,024	\$1,332,390,818	5.20%	\$1,369,677,020	2.80%
Total	\$5,023,229,856	\$5,026,359,660	0.10%	\$5,045,793,370	0.40%
School Formula					
State Regular	\$3,062,155,763	\$3,005,266,193	(1.90)%	\$2,946,430,444	(2.00)%
Gross Max Levy	\$1,922,017,256	\$2,024,018,206	5.30%	\$2,082,554,489	2.90%
Prior Year Auto & FIT	\$217,578,502	\$217,611,592	0.00%	\$218,253,445	0.30%
Growing Enrollment	\$9,333,445	\$0		\$0	
Remediation	\$30,002,967	\$0		\$0	
Total Regular	\$5,241,087,933	\$5,246,895,991	0.10%	\$5,247,238,378	0.00%
Categorical Funding					
Special Ed	\$438,679,484	\$457,589,116	4.30%	\$484,601,933	5.90%
Vocational Ed	\$77,228,450	\$88,297,725	14.30%	\$98,811,925	11.90%
Prime Time	\$124,067,003	\$127,000,246	2.40%	\$129,497,966	2.00%
Honors	\$15,831,720	\$15,815,562	(0.10)%	\$16,774,082	6.10%
Total	\$5,896,894,590	\$5,935,598,640	0.70%	\$5,976,924,284	0.70%

*Procedures for Bodies Corporate and Politic:* These provisions of the bill will result in an indeterminable administrative impact on bodies corporate and politic (instrumentalities). The ultimate impact will depend on the difference in cost between an instrumentality's current procedures compared to the administrative procedures required by the bill.

The bill provides that it is unlawful for an instrumentality to borrow money upon the credit of the state, or to contract any debt on credit of the state, or to make expenditures in any way, unless the loans or expenditures of money are first authorized by an act of the General Assembly for such purposes.

The bill also provides that instrumentalities are required to follow the budget-making requirements of the Budget Agency under IC 4-12-1. Under the bill, instrumentalities would also be required to follow the

requirements of the "Federal Reorganization Act of 1947" (IC 4-13-2). The requirements of the Act include: (1) being subject to audit by the State Board of Accounts; (2) submitting all payroll and related items through the Auditor; and, (3) following the same contracting procedures as required of other state agencies.

The bill would also require instrumentalities to follow the rulemaking procedures as set forth in IC 4-22.

The Indiana Constitution specifically prohibits the state from incurring debt. Instrumentalities currently have the authority to issue bonds. Indiana courts have determined that these instrumentalities are entities separate enough from state government as to not create a constitutional dilemma. The provisions of this bill requiring instrumentalities to comply with many of the same provisions as state agencies could call into question the constitutionality of the instrumentalities' prospective authority to issue bonds.

Below is a list of the instrumentalities that would be affected by the bill.

Board of Trustees of the IN State Teachers' Retirement Fund (IC 21-6.1-3)	IN Emergency Management, Fire and Building Services, and Public Safety Training Foundation (IC 10-15)
Board for Depositories (IC 5-13-12)	IN Housing Finance Authority (IC 5-20-1)
Board of Trustees of the Public Employees' Retirement Fund (IC 5-10.3-3)	IN Transportation Finance Authority (IC 8-9.5-8)
Board of Trustees for the Vincennes University (IC 23-13-18)	IN Municipal Power Agency (IMPA) (IC 8-1-2.2)
Bureau of Motor Vehicles Commission (IC 9-15)	Intelenet Commission (IC 5-21)
IN Health Facility Financing Authority (IC 5-1-16)	Law Enforcement Academy Building Commission (IC 5-2-2)
IN Development Finance Authority (IC 4-4-11)	Little Calumet River Basin Development Commission (IC 14-13-2)
IN Housing Finance Authority (IC 5-20)	Recreational Development Commission (IC 14-14-1)
IN Port Commission (IC 8-10-1)	State Fair Commission (IC 15-1.5)
IN Educational Facilities Authority (IC 20-12-63)	State Lottery Commission (IC 4-30)
IN Bond Bank (IC 5-1.5)	State Office Building Commission (IC 4-13.5)
IN Historical Society (IC 23-6-3)	State Student Assistance Commission (IC 20-12-21)
IN Education Savings Authority (IC 21-9-3)	The Trustees of Indiana University (IC 20-12-23)
IN Education Savings Authority (IC 21-9-3)	Trustees of Ivy Tech State College (IC 20-12-61)
IN Political Subdivision Risk Management Commission (IC 27-1-29)	University of Southern Indiana (IC 20-12-64)
IN Natural Resources Foundation (IC 14-12-1)	White River State Park Development Comm'n (IC 14-13-1)
IN Economic Development Corp (IC 4-1.5-3)	Wireless Enhanced 911 Advisory Board (IC 36-8-16.5)
IN Grain Indemnity Corp (IC 26-4-3)	

*Budget Agency & Surplus Property:* The provisions of the bill relating to disposal of surplus property will result in an indeterminable savings to state agencies. These provisions will have an administrative impact on the Budget Agency. It is presumed that the Budget Agency will be able to cover the increased costs through the use of existing staff and resources.

The bill provides that the Budget Agency may adopt policies and procedures for the disposal of surplus property by state agencies. The bill allows the policies to specify the circumstances under which and the manner in which property will be offered for sale to another governmental entity before being offered to the public. The bill also requires state agencies to comply with the policies. Any savings realized from these provisions will ultimately depend upon the actions of the Budget Agency. The savings will depend on the extent the Budget Agency is able to develop procedures that allow easier disposal and sale of surplus property. Savings may also be realized if the policies adopted by the Budget Agency encourage agencies to look first to utilize surplus property instead of making new purchases.

*Department of Local Government Finance (DLGF) Deputy Commissioner:* Under current law, the Commissioner of the DLGF is required to appoint a deputy commissioner. Under this bill, the Commissioner would have an option on whether or not to appoint a deputy.

#### *Property Tax Replacement and Homestead Credit Provisions -*

*Property Tax Replacement Plus Homestead Credit Caps:* Currently, the state pays property tax replacement credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under the bill, the sum of PTRC and Homestead Credits paid in a county would be capped in CY 2006 and CY 2007. A county's cap for the year would equal the statewide cap multiplied by the county's proportion of the total PTRC plus homestead credits that were paid in the state in the previous calendar year. The statewide caps would be \$2,099,109,197 in CY 2006 and \$2,136,409,197 in CY 2007.

To ensure that a county remains under its cap, the DLGF would reduce the percentage of the 20% PTRC available for real property and non-business personal property that is paid on civil unit operating levies and the part of school general fund levy that remains after the state pays the first 60%. The 60% PTRC rate for the school general fund which is available for all property types would only be reduced if a reduction of the 20% credits to 0% does not reduce the credit amounts by an amount sufficient to bring the credits under the cap. The 20% Homestead Credit rate would not be reduced by this provision.

The Department of Revenue and each county would have to provide information to the DLGF concerning previous year credits and assessments so that the data can be used to determine the estimated credits and the credit rate reductions needed to meet the cap.

At the same time the DLGF certifies budgets, tax rates, and levies, it would also certify the PTRC rates by taxing district and estimated distributions of PTRC and homestead credits by taxing unit.

State Credit Savings- Under current law concerning PTRC and Homestead Credit distributions, without the cap in this bill and using the school general fund levy increase that would result from the school formula

portion of this bill, it is estimated that the total state cost of PTRC and Homestead Credits would be about \$2,194.5 M in CY 2006 and \$2,314.1 M in CY 2007 **or** \$2,084.0 M in FY 2006 and \$2,234.5 M in FY 2007.

The calendar year caps in this bill are lower than the estimated full credit cost by about \$95.4 M in CY 2006 and \$177.7 M in CY 2007. The fiscal year appropriations in this bill are lower than the estimated full cost by about \$28.9 M in FY 2006 and \$122.8 M in FY 2007.

*Withheld PTRC and Homestead Credit Payments:* This bill would require the state to withhold some payments of PTRC and homestead credits under either of two circumstances.

First, if a county fails to provide information to the DLGF regarding homestead assessments that will be used to determine a county's PTRC/homestead credit distribution within the schedule set by the DLGF, the state would be required to withhold all PTRC and homestead credit payments that are attributable only to the county taxing unit. These payments would be released when the county sends the required data to the DLGF.

The second holdback would be triggered if a county fails to pay to the state by October 1 of a year any outstanding balance for juvenile offender maintenance that was forwarded to the county before April 1 of the same year. The state would be required to withhold an amount equal to the outstanding balance from the total of all PTRC and homestead credit payments in a county. The bill specifies that the credit reduction would reduce the PTRC and homestead credit distribution proportionately to all taxing units in the county. These payments would be released when the county sends the required funds to the DLGF. This provision would reduce revenues for all taxing units in a county with a balance due until such time as the county makes the payment.

According to the State Budget Agency, as of January 19, 2005, 34 counties had outstanding balances totaling \$86 M. The following table lists each of the 34 counties and their balances.



**Outstanding County Balances  
For County Juvenile Maintenance - 1/19/2005**

<b>County</b>	<b>Balance</b>	<b>County</b>	<b>Balance</b>
Allen	\$7,845,192	Knox	\$268,407
Benton	3,680	Lake	3,403,359
Cass	109,128	Lawrence	244,871
Clark	710,503	Madison	297,662
Clay	30,733	Marion	57,264,202
Clinton	716,552	Miami	667,569
Decatur	26,681	Monroe	92,597
Dekalb	368,691	Montgomery	119,663
Elkhart	1,692,995	Noble	582,238
Fayette	87,773	Porter	2,800,570
Floyd	535,188	Starke	723,821
Grant	1,209,673	Steuben	75,143
Harrison	17,740	St. Joseph	4,399,177
Hendricks	298,819	Tippecanoe	661,685
Jackson	25,027	Vanderburgh	355,536
Jefferson	11,179	Warrick	75,135
Jennings	17,475	<b>Total</b>	<b>\$86,042,591</b>
Johnson	303,927	<b># Counties</b>	<b>34</b>

*Power to Raise Fees Pertaining to the DNR:* The bill provides that DNR rules to establish a schedule of admission fees and service charges must be adopted by the Natural Resources Commission. This requirement should have no impact on DNR expenditures because the Commission currently reviews and adopts DNR rules.

(Revised) *Campus Name Changes:* The bill changes the names of certain campuses of the Indiana University School of Medicine. The changing of the various campus names should be able to be accomplished within the existing levels of their budgets and resources.

**Explanation of State Revenues:** *Power to Raise Fees Pertaining to the DNR:* The bill provides that the powers of the DNR to establish fees are transferred to the Natural Resources Commission. This provision should have no impact on revenues because currently when the DNR establishes fees, it establishes fees through rules which are approved by the Commission.

**Explanation of Local Expenditures:** *Teachers' Retirement Fund (TRF) Provisions -*

*Teacher Pension Plan Transfers:* The data submitted for the June 30, 2004, valuation indicates that there are approximately 8,900 members who were active as of June 30, 2004, and have transferred from the Pre-1996 Plan (Closed Plan) of the Teachers' Retirement Fund (TRF), which is funded by the state, to the 1996 Plan (New Plan), which is funded by local school corporations, since the inception of the New Plan. Of these 8,900 transfers, approximately 322 (with a payroll of \$19 M) appear to have occurred during FY 2004.

Under current statute, each time a member is hired or rehired by a school corporation, the teacher is transferred to the New Plan and the school corporation is required to make an employer contribution for that member from the date of transfer until the date of the member's retirement. This bill provides that members hired or rehired by a school corporation after June 30, 2005, will remain in the Closed Fund and will not become a liability to

the school corporation. Contributions to the New Fund provide a source of pre-funding that does not occur for members in the Closed Plan, which is funded by the state and pays retiree benefits on a pay-as-you-go basis. The amount of transfer activity that might occur in future years cannot be known in advance. If transfers could be expected to continue at the 2003/2004 rate, the proposed change would result in reduced school contributions to TRF of approximately \$1.8 M annually (in 2004 dollars). If the number of transfers per year is actually closer to the average since inception of the New Plan, the reduced school contribution would be closer to \$5 M annually (in 2004 dollars). This \$1.8 M to \$5 M represents reduced annual expenditures for school corporations for the New Plan and increased unfunded liability for the state for the Closed Plan of the Teachers' Retirement Fund.

*School Employer Contributions:* The bill also lowers the school employer contribution to the New Plan of the TRF from 9% of covered payroll to 7% for CY 2006 and CY 2007. The maximum contribution rate that would be required after CY 2007 is not specified in the bill. This provision is estimated to reduce future TRF contributions by approximately \$25 M to \$30 M annually (in 2006 dollars). The projected contributions for the New Plan at the 7% rate will not be sufficient to pay the cost of benefits accruing each year plus interest on the existing unfunded liability. This will cause a decline in Plan assets, an increase in the unfunded liability, and a decline in the plan's funding status over the next several years.

#### *Tuition Support Provisions -*

*Utility and Property Insurance:* The bill continues the CY 2005 provisions to allow schools to pay part of their utility and property insurance from their capital projects fund. The estimated impact is about \$118 M of expenses that can be paid from the capital projects fund.

*Transfer Tuition:* The transfer tuition law is modified by the bill to eliminate distributions the state no longer makes from the calculation of transfer tuition. The change should not have any impact, but should simplify the calculations.

#### **Explanation of Local Revenues:** *Tuition Support Provisions -*

*Property Taxes:* The bill changes the maximum decrease in the property tax rate in the school formula from \$0.05 to \$0.10 for CY 2006 and 2007.

*Transportation Fund:* The bill allows schools to increase their transportation fund levies by the reduction in state transportation funding. The increase is phased in over two years, ½ of the allowable increase in CY 2006 and ½ of the allowable increase in CY 2007. Schools would still be allowed to transfer money from other funds to offset the reduction in state transportation funds if it is not covered by the appeal. The amount of the appeals or transfers is about \$32.9 M per year. The state would not pay PTRC on the appeal or growth in the appeal from the growth quotient.

*Property Tax Replacement Plus Homestead Credit Caps:* This provision would not result in any change in overall local revenues. Capping total state PTRC/homestead credit expenditures at an amount that is below the estimated full cost of the credits would result in a net property tax increase of about \$28.9 M in FY 2006 and \$122.8 M in FY 2007, compared with the net tax under current law.

#### **State Agencies Affected:** All.

**Local Agencies Affected:** All.

**Information Sources:** County auditor's abstracts.

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